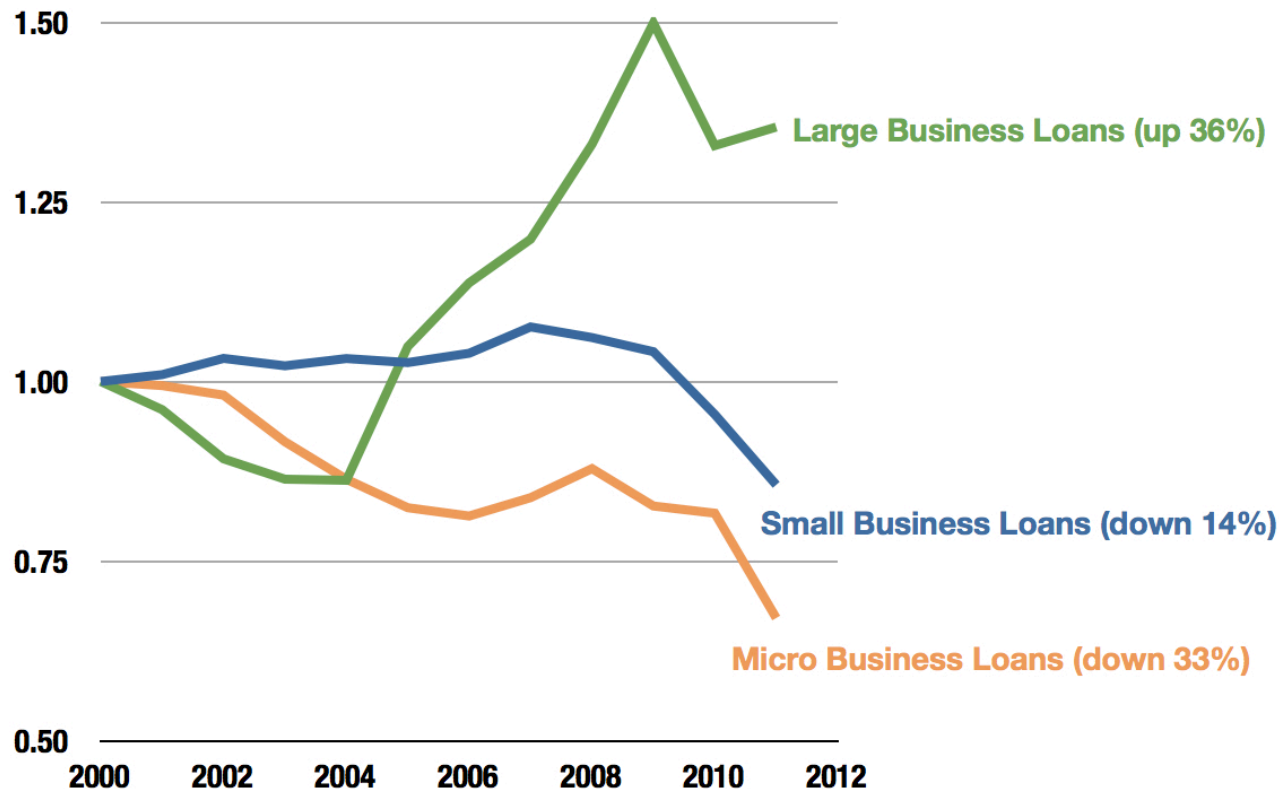


ACCESS TO CAPITAL ACT I

Speaker: David Hoppenworth

- **Businesses Lending Activity**
- **Banking Regulatory Environment**
- **The SBA 7(a) Guaranty Programs**
- **Current Credit Standards**
- **Selecting a Lender**

Change in the Volume of Small vs. Large Business Loans, 2000-2012



Source: Institute for Local Self-Reliance analysis of Federal Reserve data.

Notes: Loan volume is inflation adjusted and per capita. All categories were indexed to 1 at the start of the period. Small business loans are business loans of \$1 million or less. Microloans are loans of \$100,000 or less.

Why Isn't Small Business Lending What It Used to Be?

- Fewer small businesses are interested in borrowing than past years
- Small business financials have remained weak depressing approval rates
- Collateral values have stayed low
- Increased regulatory scrutiny has caused banks to boost lending standards
- Bank consolidation has reduced the number of banks focused on the small business sector
- Small business lending has become relatively less profitable than other types of lending

Banking Regulatory Environment

- **Consumer Financial Protection Bureau, CFPB**
- **Office of the Controller of the Currency & Federal Deposit Insurance Corporation – main regulators**
- **Key themes:**
 - Evolving rules and regulations for consumer protection - CFPB
 - New and close regulation of banks' financial ratios
 - Do not put your eggs in one basket! Diversify commercial loan portfolio by geography, industry and loan size
 - Prudent lending with emphasis on primary repayment sources and collateral coverage
 - Few industry cautions – Payday lenders due to CFPB

Small Business Administration

- **SBA is an agency that provides support to entrepreneurs and small businesses**
 - Mission:
 - Maintain and strengthen the nation's economy by enabling the establishment and viability of small businesses
 - Assisting in the economic recovery of communities after disasters
 - District Offices to support businesses located in each state (www.sba.gov)
 - About 98% of businesses are defined as small

SBA 7(a) Guaranty Programs

- Delivered only by approved lenders (banks and non-bank direct lenders)
- Maximum loan size \$5,000,000 (combined balances)
- Provides the lenders 75% to 90% loss share guaranty
- An inducement to lend to businesses on terms not offered under conventional lending standards
- Types of business: owner-operated, for profit start-up, expanding or growing businesses

SBA 7(a) Guaranty Programs

- **Common use of funds to finance or refinance:**
 - Permanent working capital;
 - **Revolving working capital;**
 - Furniture and fixtures;
 - **Machinery and equipment;**
 - Purchase of land and building including construction and renovations;
 - Business Acquisition

Advantages: SBA 7(a) vs. Conventional Lending

- Preserve working capital due to lower equity injection requirements
- Lower monthly payments due to longer repayment terms
- Less collateral required or special collateral type accepted to secure the loan
- Typically all fees are financed

Disadvantages: 7(a) vs. Conventional

- Guaranty Fees up to ~ 3% (always financed)
- Slightly more paperwork
- Proscribed program requirements takes expertise on part of lender
- Personal assets may have to be pledged

Conventional Lending Focus

- Fixed asset, owner occupied commercial real estate purchases and refinances, trade asset financing, some change of ownership financing
- Manufacturers, wholesalers, distributors, some medical professionals, some professional service sectors
- Stable and growing businesses with 3 + years of consistent profitability and management
- Adjusted EBITDA cash flow ≥ 1.25 times combined existing and proposed principal payments
 - Expansions must cash flow the existing and new debt from existing operations
- Business debt to net worth leverage $\leq 4.0 : 1$

SBA 7(a) Lending Focus

- Fixed asset, owner occupied commercial real estate purchases construction and refinances, partner buy outs and key manager acquisitions some change of ownership financing. Permanent working capital provided based on demonstrated need
- Manufacturers, wholesalers, distributors, some medical professionals, professional service sectors, franchised businesses, hospitality (hotels), selected gas stations,
- Stable and growing businesses with 2 + years of consistent profitability and management

SBA 7(a) Lending Focus

- Adjusted EBITDA cash flow ≥ 1.15 times combined existing and proposed principal payments
- Expansions should cash flow the new debt and existing debt at $\geq .75:1$ from existing operations
- Projected cash flow from the expansion to additional locations, additional capacity or expanded product lines considered to reach 1.15:1
- Business should be adequately capitalized (no debt to worth ratio requirements)

What to Look for in Your Lender

- **Expertise: you banker and his/her financial institution should have expertise in your type of request**
 - Ask for references
 - If SBA, is the lender a **Preferred Lender or PLP** (implies expedited processing and expertise)
 - If SBA, your lender should have handled dozens of transaction each year, preferably transactions like yours
- **Specialization: The financial institution should have a specialized and dedicated SBA credit and closing department staffed with trained professionals**

What to Look for in Your Lender

- **Crisp Communication:** Your banker should know the program requirements, be able to tell you exactly what documents will be required for credit approval and be able to explain, in detail, the processes and timelines
- **Responsiveness:** You should be able to get a credit decision in two weeks from submission of a complete application. If not, move on fast.
- **Ask your SBA District Office for a Referral.**
www.SBA.Gov

ACCESS TO CAPITAL ACT II

Speaker: Michael Owen

- **Comparing fund sources**
- **What is a Certified Development Company**
- **Factors to improve success of funding**
- **SBA Community Advantage Loan**
- **SBA 504 Loan**

Where is the Money!

	Bank	Online Lenders	Venture Capital
Control	Financial covenants, ratios, personal guarantee	Generally minimal, non-financial restrictions	Board seat, protective provisions
Dilution - Ownership	None or warrants	None or warrants	Moderate to Extreme
Flexibility/ Leverage	Inflexible fixed payments	Flexible fixed payments aligned to revenue	Highly flexible, no payments, no leverage
Alignment of interests	Normally unaligned	Aligned strictly with revenue	Growth and exit at all costs
Exit Strategy	Pay-off debt	Negotiable	Required
Cost of Capital	5 to 11%	Entrepreneur aligned 25% +/-	30% + to investors
Turn Time	30-60 days	5 -10 days	60-90 days +
Success Rate	25-30%	10%	0-5%

Role of a Certified Development Company (CDC)

- **Work with the borrower- initial contact through approval, funding & servicing**
- **Access to other lending programs and/or services to enhance projects' success**
- **Solicits the loan request with banks that are familiar with SBA loan programs**
- **Long term relationship with the borrower through servicing the SBA loan through its pay-off**
- **An economic development lender with a focus on job creation and retention**

IMPROVING YOUR SUCCESS IN RECEIVING A LOAN

Credit – Management of Debts

Capacity - Cash Flow

Collateral – Security for the Loan

Capital – Your Investment

Conditions - Experience

Consider the
strengths &
weaknesses of
applicant's
situation

CREDIT

Credit Score:

- Payment history
- Percentage of revolving debt available
- Length of credit history
- Types of credit: Revolving & Installment debt



Credit Resources:

- www.annualcreditreport.com
- www.credit.org

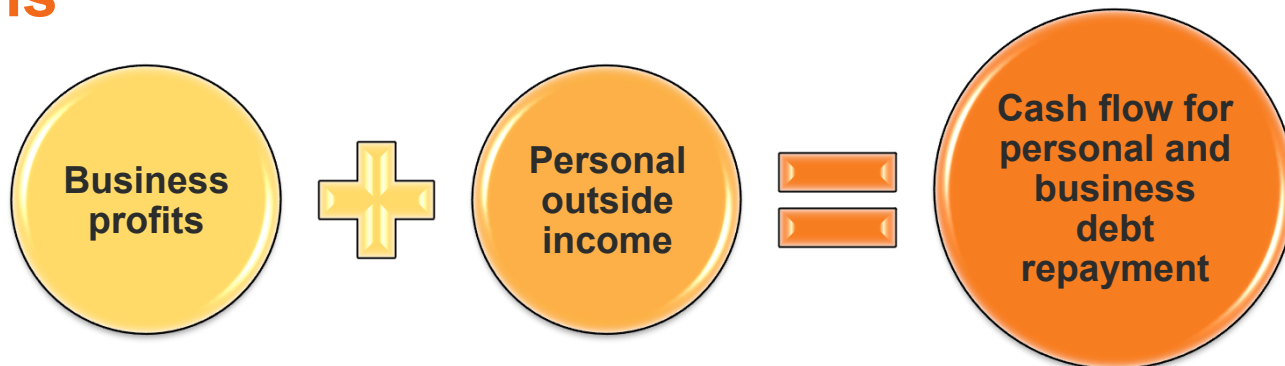
CAPACITY

Business Income:

- Profit on recent tax returns and interim financials
- Projected income for new businesses or significant expansion plans

Personal Income:

- Other employment
- Other businesses
- Spousal
- Military

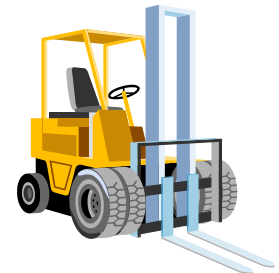


COLLATERAL

Collateral - Tangible assets that can be sold by the lender in the event that the business is not able to repay the loan.

Common forms of collateral:

- **Personal Residence – *if the property has equity when valued at 80% of the present market value***
- **Business Assets – *all inventory and equipment owned by the business***
- **Personal Assets – *personal vehicle, cash***



CAPITAL INJECTION

Capital - Funds the business owner(s) will put into the business for this project.

Sources:

- **Savings**
- **Home equity line of credit**
- **Partner contributions**
- **Family and friends (gifted)**



Start-up: 30% injection required

Business Acquisition: 20% injection required

SBA COMMUNITY ADVANTAGE LOAN PROGRAM

- Offered directly by Mission Based lenders
- Loan Range: \$20,000 - \$250,000
- Loans offered for start-ups, existing businesses, expansions, and business acquisitions
- Rates: Prime + 2.75% to Prime + 6% (variable)
- Terms: 7-10 years

Example - Community Advantage Applicant

Project:	Business started in 2009. Offers online and video preparation for the LSAT. Borrower is seeking \$100K for working capital to expand
Credit:	Above average
Collateral:	Limited to minimal business assets
Pro' s:	Experienced operator, currently profitable, good credit history
Con' s:	Short positive cash flow operating history and limited collateral to offer

CASH FLOW: EXAMPLE

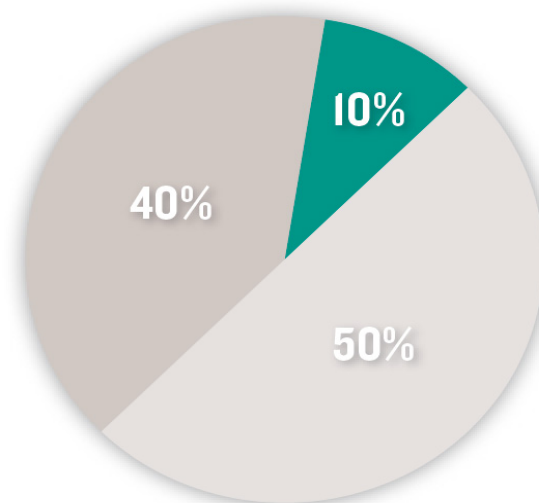
		2011	2012	Interim, 2013
Months		12	12	12
Sales		77,759.0	187,881.0	191,000.0
Net Profit		36,438.0	134,212.0	130,400.0
Owner #1 Personal Discretionary Surplus/Deficit		<85,348.4>	<85,348.4>	<85,348.4>
Total		<48,910.4>	48,863.6	45,051.6
Less:				
Annual Existing P & I		24,000.0	24,000.0	24,000.0
Proposed P & I		14,244.2	14,244.2	14,244.2
Total		38,244.2	38,244.2	38,244.2
Coverage Ratio		<1.28x>	1.28x	1.18x
Bank Loan Amount:	\$100,000.0	Projected Monthly Payment:		\$1,187
Interest Rate:	7.50%			
# of years:	10			\$14,244

What is the SBA 504 Program?

- **Access to Wall Street financing for America's small businesses**
- **Partnership between a private lender (often a bank) and CDC/SBA**
- **Provides up to 90% financing for owner occupied commercial real estate and eligible equipment**
 - Fully amortizing 20/20 or 10/10-year term loans
 - Below market fixed interest rate
May 2014 the 20-year rate is 5.07%
 - Bank interest rate on the 1st mortgage tends to be a lower-than-conventional offering

504 Loan structure

- 50% Bank 1st mortgage
- 40% CDC 2nd mortgage
- 10% Owner down-payment



- Company Down Payment (10%)
- SBA Portion/CDC (40%)
- Bank Financing (50%)

SBA 504 vs. Conventional Loan

	504	Conventional
Project Size	No Maximum	No Maximum
Interest Rate	Varies for Bank Loan 4.0 to 6.0% Fixed Rate SBA 2nd Loan at Below-market 5.07% today Fixed-rate for 20 Years	Varies by lender Approximately 4.75 to 6.0% 3 to 5 year balloon payment term 25 year amortization
Down Payment	10% Down Payment	20 to 30% Down Payment
Collateral	Lien Required on Subject Property	Lien Required on Subject Property
Fees	SBA fees 2.65% Lender 0.5 to 1.5% Blended total 1.8%	Varies Depending on term of loan and if rate is variable or fixed 1.0 to 2.0%
Prepayment Penalty	Yes: Based on declining balance reducing each year and removed after mid term reached	Yes: Break Funding - Yield Maintenance None: For most Variable rates

Owner-Occupied Projects that Qualify

- **Straight Purchase of existing building**
 - Business must occupy 51%
- **Purchase of existing building and improvements**
 - Business must occupy 51%*
- **Construction of new building**
 - Business must occupy 60% initially and 80% in 10 years*
- **Purchase of machinery & equipment**
 - Useful life greater than 10 years

*** Eligible improvements are specific to the owner occupant, not sub-tenants**

SBA 504 Funding Process

from Wall Street to Main St.

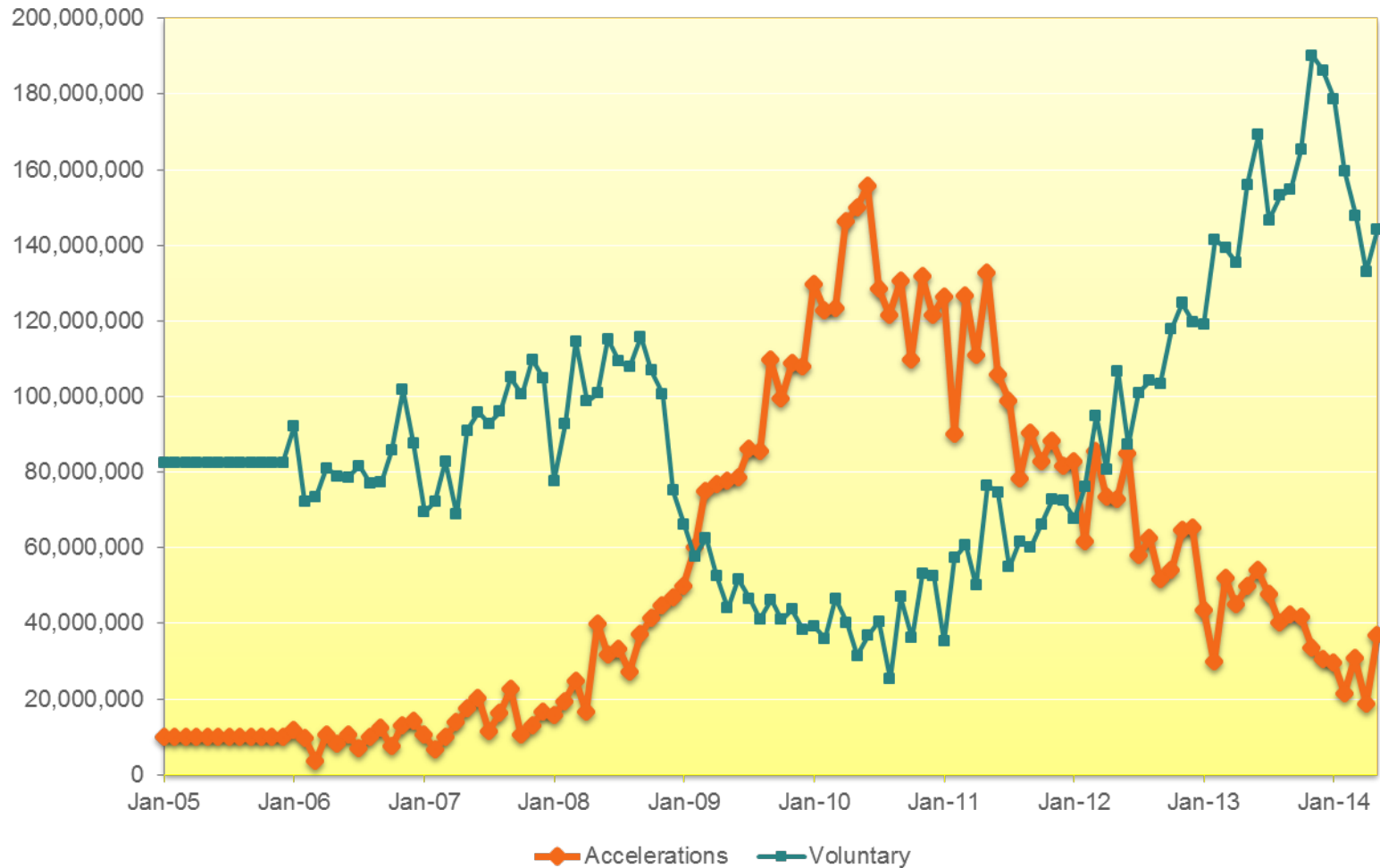
- The 504 loans are funded via the capital markets on a national basis every month
- All 504 loans that fund are pooled
- Price for each pool is negotiated with Wall Street underwriters
- Comparable index is the 10-year treasury swap rate



Find a 504 Partner – www.NADCO.ORG <http://www.nadco.org/search/custom.asp?id=1316>

The screenshot shows the NADCO (National Association of Development Companies) website. At the top, there is a navigation bar with links: PRINT PAGE | CONTACT US | REPORT ABUSE | SIGN IN | REGISTER. A search bar on the right contains the text "Enter search criteria..." and a magnifying glass icon. Below the navigation bar, the NADCO logo is displayed in red, with the tagline "National Association of Development Companies" underneath. To the right of the logo, there are two large blue arrows pointing right, followed by the text "Small business loans" and a red stamp that says "DELIVERED". Below this, a red horizontal bar contains the following links: ABOUT | LOAN INFORMATION | MEMBERSHIP | NEWS | EVENTS | RATES | TELL CONGRESS. The main content area has a heading "CDC Members" in red. Below this, there is a section titled "States Where Authorized to Operate". This section includes a white dropdown menu with a downward arrow, a large yellow arrow pointing left towards the dropdown, and a blue button with the text "Find Your State". Below the dropdown menu is a red button with the text "Continue »".

Post Recession 504 Portfolio Assessment



Rising to a Challenge



An aerospace component manufacturing company



Kevin Darroch

- Was leasing building with option to buy- recession made it impossible to afford down-payment
- CDC advocated with SBA to allow Darroch to use \$350K already invested in TIs as the down-payment
- Was able to buy his \$2.4 million, 21,000 sq.ft. facility with a SBA-504 loan
- He saved \$3K in closing costs via CDC VetLoan Advantage program and he's saving \$2K/mo owning vs leasing

CDC SMALL BUSINESS FINANCE

- Largest CDC in the nation
- Current staff of 80+ professionals
- Variety of loan programs offered in California / Nevada / Arizona
- Loan portfolio of over \$2 billion with over 3,500 loans

36 Years of Making a Difference

\$3,950,000,000

in SBA Commercial Real Estate Loans Funded

\$12,200,000,000

Total Dollars leveraged via SBA-504 loans

\$3,500,000+

in Community Contributions
We give back!

\$140,000,000

Issued via general business loans

125,000

Jobs Created
That's 10 jobs a day, every single day for the past 35 years!

\$100,000+

in Scholarships Awarded
Helping people, it's what we do!



ACCESS TO CAPITAL ACT III

Speaker: Gary Taylor

Small Business Credit Markets

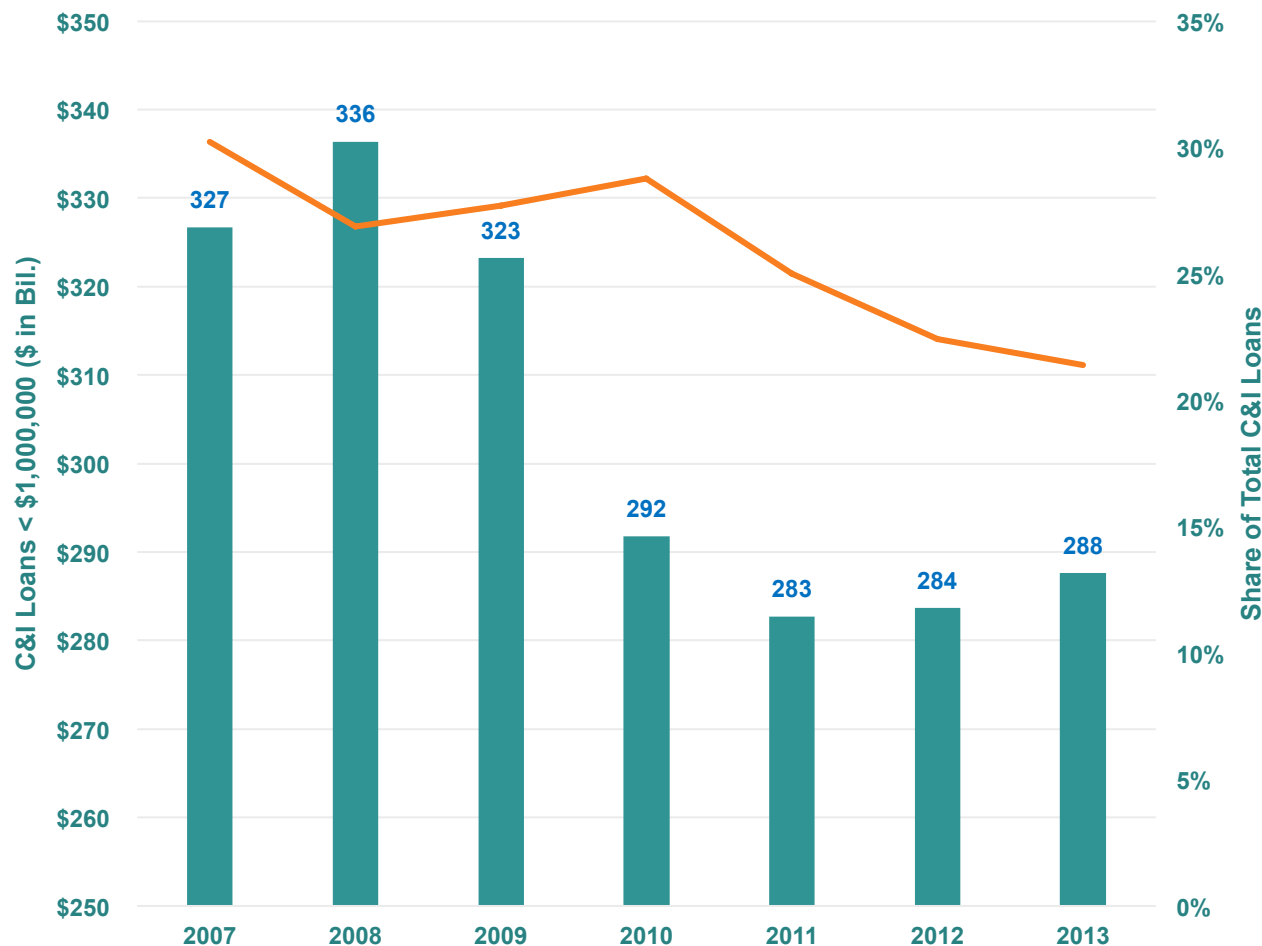
- Reduced Supply of Bank Credit:
 - Tighter credit standards
 - Credit scores, collateral, cash flow
 - Greater risk aversion
 - Increased scrutiny by regulators

Small Business Credit Markets

- Reduced Demand for Bank Credit:
 - Tax uncertainty
 - Lack of growth opportunities
 - Impaired financial condition

Small Business Credit Markets (Cont'd)

Bank C&I Loans Under \$1,000,000



Non-Bank Funding Sources

- Commercial Finance/ABL
 - Peer-to Peer Lenders
- Hedge and Private Equity Funds
- Business Development Companies

How to Improve Creditworthiness

- **Review Personal Credit**
 - Make sure that credit history is reported accurately
- **Review Business Credit Report**
 - Make sure all credit relationships are reported
 - Correct errors
- **Manage Business Credit Cards**
 - Preserve availability
 - Request increase in limit and leave unused
- **Pay Bills on Time**
- **Use Debt Sparingly**

ACCESS TO CAPITAL WRAP- UP

Questions & Answers for the panelist